

AUDIT REPORT

TOWN OF MCCURTAIN, OKLAHOMA
&
MCCURTAIN MUNICIPAL AUTHORITY

JUNE 30, 2014



KERSHAW CPA & ASSOCIATES, PC

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TOWN OF MCCURTAIN, OKLAHOMA

JUNE 30, 2014

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TOWN OF MCCURTAIN, OKLAHOMA

JUNE 30, 2014

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TOWN OF MCCURTAIN, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2014

BOARD OF TRUSTEES

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
HARVEY WAY	CHAIRMAN	4/2017
DAVID FOX	VICE CHAIRMAN	4/2015
DAWNA FOX	TRUSTEE	4/2017
JOYCE ADAMS	TRUSTEE	4/2015
JENNY ANDERSON	TRUSTEE	4/2017
STEPHANIE WILLIAMSON	CLERK	

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of McCurtain, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of McCurtain, Oklahoma, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of

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accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the Governmental & Business-Type Activities is not readily determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Town of McCurtain, Oklahoma, as of June 30, 2014, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

The introductory and supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Town. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide an assurance on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit*

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Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements of the Town of McCurtain, Oklahoma.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 22, 2014, on our consideration of the Town of McCurtain's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of McCurtain's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

December 22, 2014

TOWN OF MCCURTAIN, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	2014 Total	Memo Only 2013 Total
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash, Including Time Deposits	\$ 27,869	\$ 21,088	\$ 48,957	\$ 34,618
Total Current Assets	27,869	21,088	48,957	34,618
<u>Restricted Assets:</u>				
Cash, Including Time Deposits	-	35,314	35,314	108,162
Total Restricted Assets	-	35,314	35,314	108,162
<u>Capital Assets:</u>				
Water & Sewer System Improvements	-	3,852,932	3,852,932	2,736,886
Equipment	-	57,887	57,887	57,887
Less: Accumulated Depreciation	-	(572,744)	(572,744)	(525,783)
Total Capital Assets	-	3,338,075	3,338,075	2,268,990
TOTAL ASSETS	27,869	3,394,476	3,422,345	2,411,770
<u>LIABILITIES</u>				
<u>Current Liabilities:</u>				
Due to Other Governments	-	-	-	-
Payroll Taxes Payable	-	-	-	-
Notes Payable - Current Portion	-	30,703	30,703	9,491
Total Current Liabilities	-	30,703	30,703	9,491
<u>Long-Term Liabilities:</u>				
Due to Depositors	-	45,391	45,391	47,070
Note Payable - RD	-	1,771,600	1,771,600	1,307,700
Notes Payable - CRG, Inc.	-	12,596	12,596	14,058
Less: Notes Payable - Current Portion	-	(30,703)	(30,703)	(9,491)
Total Long-Term Liabilities	-	1,798,884	1,798,884	1,359,337
TOTAL LIABILITIES	-	1,829,587	1,829,587	1,368,828
<u>NET POSITION</u>				
Net investment in capital assets	-	1,553,879	1,553,879	947,232
Restricted for:				
Debt Service	-	35,314	35,314	108,162
Other Purposes	-	-	-	-
Unrestricted	27,869	(24,303)	3,566	(12,452)
TOTAL NET POSITION	\$ 27,869	\$ 1,564,890	\$ 1,592,759	\$ 1,042,942

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MCCURTAIN, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General Govt. & Public Safety:					
General Government	\$ 66,921	\$ -	\$ -	\$ 13,813	\$ (53,107)
Public Safety	115,755	134,891	-	-	19,136
Parks & Recreation	4,974	-	-	-	(4,974)
Streets & Highways	8,350	-	-	-	(8,350)
Total Governmental Activities	195,999	134,891	-	13,813	(47,295)
Business-type activities:					
Water	108,125	138,066	-	620,489	650,429
Sewer	62,448	38,944	-	-	(23,504)
Sanitation	46,821	48,884	-	-	2,062
Miscellaneous	46,961	12,156	-	-	(34,805)
Total Business-type Activities	264,356	238,050	-	620,489	594,183
Total	\$ 460,355	\$ 372,941	\$ -	\$ 634,302	\$ 546,888

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (47,295)	\$ 594,183	\$ 546,888
General revenues:			
Taxes:			
Sales Tax	46,560	-	46,560
Tobacco Tax	513	-	513
Franchise Tax	8,698	-	8,698
Intergovernmental:			
Alcoholic Beverage Tax	8,576	-	8,576
Gasoline Excise Tax	948	-	948
Motor Vehicle Tax	4,015	-	4,015
Royalty Income	1,796	-	1,796
Rental Income	300	-	300
Investment Income	10	24	34
Miscellaneous	11,604	-	11,604
Transfers - Internal Activity	(10,066)	10,066	-
Total general revenues & transfers	72,953	10,090	83,043
Changes in net position	25,658	604,273	629,931
Net position - beginning	2,211	1,040,732	1,042,943
Net position - prior year adjustment	-	(80,115)	(80,115)
Net position - ending	\$ 27,869	\$ 1,564,890	\$ 1,592,759

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MCCURTAIN, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 27,251	\$ 301	\$ 317	\$ 27,869
Investments	-	-	-	-
Due from General Fund	-	-	-	-
Due from other governments	-	-	-	-
TOTAL ASSETS	\$ 27,251	\$ 301	\$ 317	\$ 27,869
LIABILITIES & FUND EQUITY				
LIABILITIES:				
Due to Other Governments	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	-	317	317
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	27,251	301	-	27,552
TOTAL FUND BALANCES	27,251	301	317	27,869
TOTAL LIABILITIES AND FUND BALANCES	\$ 27,251	\$ 301	\$ 317	

Reconciliation to Statement of Net Position:

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities of \$0, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds.

-

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.

-

Net Position of Governmental Activities

\$ 27,869

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MCCURTAIN, OKLAHOMA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Sales Tax	\$ 46,560	\$ -	\$ -	46,560
Tobacco Tax	513	-	-	513
Franchise Tax	8,698	-	-	8,698
Intergovernmental:				
Alcoholic Beverage Tax	8,576	-	-	8,576
Gasoline Excise Tax	948	-	-	948
Motor Vehicle Tax	4,015	-	-	4,015
Grants	-	13,813	-	13,813
Fines & Forfeitures	123,429	-	11,462	134,891
Royalty Income	1,796	-	-	1,796
Rental Income	300	-	-	300
Miscellaneous Income	4,827	6,688	90	11,604
Interest Income	10	-	-	10
TOTAL REVENUES	199,671	20,501	11,552	231,724
EXPENDITURES:				
Fire Department:				
Maintenance & Operations	9,288	-	-	9,288
Debt Service	-	-	-	-
Parks & Recreation:				
Maintenance & Operations	1,174	3,800	-	4,974
Police Department:				
Personal Services	56,536	-	-	56,536
Maintenance & Operations	24,629	14,000	11,303	49,931
Street & Alley:				
Maintenance & Operations	6,350	-	-	6,350
General Government:				
Personal Services	22,300	-	-	22,300
Maintenance & Operations	44,221	400	-	44,621
Capital Outlay	-	2,000	-	2,000
TOTAL EXPENDITURES	164,496	20,200	11,303	195,999
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	35,174	301	249	35,724
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	-	-
Operating Transfers Out	(10,066)	-	-	(10,066)
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(10,066)	-	-	(10,066)
NET CHANGES IN FUND BALANCES	25,108	301	249	25,658
FUND BALANCE - BEGINNING OF YEAR	2,143	-	67	2,211
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 27,251	\$ 301	\$ 317	27,869

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MCCURTAIN, OKLAHOMA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$	25,658
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Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

Capital debt obligation principal payments	-	
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Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:

Capital Debt Proceeds	-	
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	-	
Depreciation expense	-	

	\$	25,658
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See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MCCURTAIN, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2014

	McCurtain Municipal Authority Enterprise Fund June 30, 2014
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 21,088
Restricted cash and cash equivalents	35,314
Due from other governments	-
Total Current Assets	56,402
Noncurrent Assets:	
Restricted cash and cash equivalents	-
Land and construction-in-progress	-
Other capital assets, net of accumulated depreciation	3,338,075
Total Noncurrent Assets	3,338,075
TOTAL ASSETS	3,394,476
<u>LIABILITIES & FUND EQUITY</u>	
Current Liabilities:	
Due to Other Governments	-
Payroll Taxes Payable	-
Notes Payable - Current Portion	30,703
Total Current Liabilities	30,703
Noncurrent Liabilities:	
Due to Depositors	45,391
Notes Payable - RD	1,771,600
Notes Payable - CRG, Inc.	12,596
Less: Notes Payable - Current Portion	(30,703)
Total Noncurrent Liabilities	1,798,884
TOTAL LIABILITIES	1,829,587
NET POSITION:	
Net investment in capital assets	1,553,879
Restricted for debt service	35,314
Unrestricted	(24,303)
TOTAL NET POSITION	\$ 1,564,890

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MCCURTAIN, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
 PROPRIETARY FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	McCurtain Municipal Authority Enterprise Fund June 30, 2014
<u>OPERATING REVENUES:</u>	
Charges for services:	
Water Sales	\$ 138,066
Sanitation Fees	48,884
Sewer Fees	38,944
Taps	350
Service Fees	-
Miscellaneous Income	11,806
TOTAL OPERATING REVENUES	238,050
<u>OPERATING EXPENSES:</u>	
Water	108,125
Sanitation	46,821
Sewer	8,531
Miscellaneous	-
Depreciation	46,961
TOTAL OPERATING EXPENSES	210,438
NET OPERATING INCOME (LOSS)	27,611
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	24
Interest Expense	(53,917)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(53,893)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(26,282)
Capital Contributions	620,489
Transfers in	30,785
Transfers out	(20,718)
CHANGE IN NET POSITION	604,273
TOTAL NET POSITION - BEGINNING	1,040,732
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	(80,115)
TOTAL NET POSITION - ENDING	\$ 1,564,890

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MCCURTAIN, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>June 30, 2014</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 238,050
Other Cash Receipts	-
Payments to Suppliers & Laborers for Goods & Services	(163,477)
Receipts of Customer Utility Deposits, Net of Refunds	<u>(1,679)</u>
Net Cash Provided (Used) by Operating Activities	<u>72,894</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to other funds	(20,718)
Transfers from other funds	<u>30,785</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>10,066</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Capital grant received for construction of capital assets	620,489
Additions to Capital Assets	(1,116,046)
Proceeds from sale of Capital Assets	-
Loan Proceeds received	495,557
Principal paid on Notes Payable	(33,119)
Principal paid on Lease Purchase Obligations	-
Interest paid	<u>(53,917)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(87,036)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest Income	<u>24</u>
Net Cash Provided (Used) by Investing Activities	<u>24</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,053)
Cash & Cash Equivalents, Beginning of Year	140,570
Cash & Cash Equivalents, Prior Year Adjustment	<u>(80,115)</u>
Cash & Cash Equivalents, End of Year	<u><u>\$ 56,402</u></u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 27,611
Adjustments to reconcile operating income (loss) to net cash	
provided (used) by operating activities	
Depreciation	46,961
Increase(Decrease) in Due to Depositors	(1,679)
Increase(Decrease) in Payroll Taxes Payable	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 72,894</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. REPORTING ENTITY

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of McCurtain
Blended Component Units:	McCurtain Municipal Authority (MMA)

PRIMARY GOVERNMENT

The Town operates under the "Town Board of Trustees" form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, education, public improvements, planning and zoning, and general administrative services. The following is a summary of the more significant accounting policies of the Town.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the Town Council, and there is a financial benefit or burden relationship with the Town, or Town management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the Town; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the Town. The blended component unit's funds are blended into

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

those of the Town by appropriate fund type to constitute the primary government presentation. The Town's blended component unit is presented subsequently:

McCurtain Municipal Authority

The McCurtain Municipal Authority (MMA) is a public trust created under authority of and pursuant to the provision of Title 60, Oklahoma Statutes 1961 Section 176 to 180, on November 17, 1967, for the use and benefit of the McCurtain Municipal Authority. The Trust has as its purpose to develop, construct, plan, establish, install, enlarge, improve, maintain, equip, operate, control and regulate utility facilities whether water, sewage, garbage, trash disposal recreation and industrial facilities, or other forms or types of public and municipal services within or without the corporate boundaries of the McCurtain Municipal Authority.

The MMA is empowered to lease, acquire, or construct the properties necessary to provide and maintain these services. It is also empowered to obtain funds for these purposes and in so doing, to incur indebtedness whether unsecured or secured by all or any part of the Trust Estate and its revenues. The MMA is also permitted to transfer monies to the Town of McCurtain for the use of the Town. The Board of Trustees of the Town of McCurtain acts as Trustees of the MMA.

In order to fulfill these functions, the MMA has leased from the Town its sewer system, its rights to all improvements thereto, its rights to any and all municipal services and revenues there from.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed, in whole or in part, by fees charges to external parties for goods or services.

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two broad fund types as follows:

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

PROPRIETARY FUND TYPES

Enterprise Funds

Enterprise funds are used to account for the acquisition, operation and maintenance of Town facilities which are financed primarily by user charges. The Enterprise funds are accounted for similar to activities of the private sector. The measurement focus is upon determination of net income, financial position and changes in financial position. The McCurtain Municipal Authority is accounted for as the Town's Enterprise Fund.

McCurtain Municipal Authority	Accounts for the activities of the public trust in providing water and sewer services to the public.
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TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented used the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. FINANCIAL POSITION

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year end, if any, are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts, certificates of deposit, or short-term investments with an original maturity of

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

DUE FROM OTHER FUNDS OR GOVERNMENTS

Receivables and payables to other funds or governments arising from cash transactions or events are recorded in the financial statements a modification to the cash basis of accounting.

CAPITAL ASSETS

Expenditures for property and equipment of governmental funds and expendable trust funds are recorded as fund expenditures; however, no detail capital asset records are maintained for such assets still in service. Therefore, capital assets of the Governmental Activities required by the modified cash basis are not presented.

Capital assets acquired by the Enterprise Funds are capitalized as property and equipment within the Funds. Property, plant and equipment are stated at cost. Where cost can be determined from the available records, estimated historical cost is used to record the estimated value of the assets.

Depreciation of exhaustible capital assets used by the proprietary fund is charged as an expense against operations, and accumulated depreciation is reported on the proprietary fund's balance sheet. Depreciation has provided over the estimated useful lives using the straight-line method.

Estimated useful lives are as follows:

Sewer System	40 years
Equipment	5-7 years

Capitalization Policy

Purchases of capital items in excess of \$1,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

EQUITY CLASSIFICATION

Equity is classified as net position and displayed in three components:

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

The Town does not have any Major Special Revenue Funds.

E. REVENUES, EXPENDITURES AND EXPENSES

Sales Tax

The Town presently levies a three-cent sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The sales tax received is recorded as sales tax revenue within the following funds:

- 2.5 cents General Fund

Of the two and one-half cents collected in the General Fund, one-half cents is required to be transferred to the McCurtain Municipal Authority in accordance with Ordinance No. 97-1 approved by the voters on April 1, 1997, for the purpose of sanitary Sewer Department Improvement and operation.

Property Tax

For the year ended June 30, 2014, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

Governmental Fund Types -	By Character: Current (further classified by activity) Capital Outlay
Proprietary Fund Types -	By Operating and Non-Operating

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

Interfund Transfers

During the course of normal operations, the Town has transactions between funds including expenditures and transfers of resources to provide services, purchase assets and service debt. Transactions which are normal and recurring between funds are recorded as operating transfers. Transfers of equity between funds (residual equity transfers) are recorded as a change in fund balance.

ACCUMULATED VACATION AND SICK LEAVE

Under Town personnel policies, Town employees are granted vacation and sick leave in varying amounts as approved by the board. In the event of termination, an employee will receive any compensatory time accumulated.

USE OF ESTIMATES

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

As a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations.

Finance-related Legal & Contractual Provisions

As described in Note 4, the Town was in compliance with the reserve requirements of the Rural Development loan agreements.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the Town for this fiscal year.

NOTE 3 - DEPOSITS, INVESTMENTS AND COLLATERAL

Custodial Credit Risk

At June 30, 2014, the Town held deposits of approximately \$84,271 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

Carrying Value Reconciliation to Statement of Net Position

Cash, Including Time Deposits:	
General Government	\$ 27,869
Enterprise	21,088
Restricted Cash: Enterprise Fund	<u>35,314</u>
 Total Carrying Value	 \$ 84,271

NOTE 4- RESTRICTED ASSETS

The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to set aside into a Reserve Account the sum of the annual installment (\$27,540), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval. The new loan agreement with the USDA requires the Authority to set aside into a Reserve Account the sum of 10% of the monthly installment of \$478.60 each month until there is accumulated in that account the sum of the annual installment (\$57,432), after which deposits may be suspended, except to replace withdrawals.

The Authority continued to make the required monthly deposits of \$229.50 into the reserve account for the old loan and began making the deposits of \$478.60 and will continue those deposits until the required balance is accumulated. As of June 30, 2014, the account balance for the reserve account was \$20,661.86.

Components of Restricted Assets:

Meter Deposits	\$ 14,623
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TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

RD Construction	29
Debt Reserve	<u>20,662</u>
	<u>\$ 35,314</u>

NOTE 7 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2014, was as follows:

	6/30/13			6/30/14
	Balance	Additions	Deductions	Balance
Water & Sewer System Improvement	\$ 2,736,886	\$ 1,116,046	\$ -	\$ 3,852,932
Equipment	57,887	-	-	57,887
	<u>2,794,773</u>	<u>1,116,046</u>	<u>-</u>	<u>3,910,819</u>
Less: Accum. Depreciation	(525,783)	(46,961)	-	(572,744)
	<u>\$ 2,268,990</u>	<u>\$ 1,069,085</u>	<u>\$ -</u>	<u>\$ 3,338,075</u>

Depreciation expense for the year ended June 30, 2014, aggregating \$46,961, has been computed on assets with a cost basis totaling \$3,910,819.

NOTE 8 - LONG-TERM DEBT

GOVERNMENT FUND DEBT

The governmental funds currently have no long-term debt.

MCCURTAIN MUNICIPAL AUTHORITY

NOTE PAYABLE:

<u>Terms and Collateral</u>	<u>Outstanding Debt</u> <u>June 30, 2014</u>
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Promissory Note to the Rural Utilities Service in the Amount \$500,000 with an initial interest rate of 4.50%. The note is being retired through monthly payment of \$2,295 including principal and interest beginning September 12, 2003 until the note matures on July 12, 2041. The note is for the purpose of financing the construction of a sewage collection and treatment facility.

\$ 429,193

Promissory Note 10220 to the CRG, Inc. in the amount of \$16,600 with an interest rate of 4.5%. Payment is to be made in 120 equal monthly installments of \$172.04 including principal and interest until the note matures on December 9, 2020. The note is for the purpose of funding

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Emergency repairs to the water storage tank. 12,596

Promissory Note to the USDA Rural Development in the Amount \$1,391,000 with an interest rate of 2.75%. The note is being retired through monthly payment of \$4,786 including principal and interest beginning December 13, 2012 until the note matures on December 13, 2052. The note is for the purpose of financing the water distribution system improvements. All loan proceeds have been received as of June 30, 2014.

1,342,407

Total Notes Payable Outstanding \$1,784,196

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2014:

	Balance 7/1/2013	Additions	Deductions	Balance 6/30/2014
N/P - USDA RD #1	\$ 437,221	\$ -	\$ (8,028)	\$ 429,193
N/P - CRG 10220	14,058	-	(1,462)	12,596
N/P - USDA RD #2	870,479	495,557	(23,629)	1,342,407
	<u>\$ 1,321,758</u>	<u>\$ 495,557</u>	<u>\$ (33,119)</u>	<u>\$ 1,784,196</u>

A summary of future maturities of principal and interest are as follows:

Year Ending June 30,	Note Payable - RD #1		Total
	Principal	Interest	
2015	\$ 8,398	\$ 19,142	\$ 27,540
2016	8,784	18,756	27,540
2017	9,188	18,352	27,540
2018	9,610	17,930	27,540
2019	10,051	17,489	27,540
2020-2024	57,621	80,080	137,700
2025-2029	72,129	65,571	137,700
2030-2034	90,291	47,409	137,700
2035-2039	113,026	24,674	137,700
2040-2041	50,096	2,267	52,363
Total	<u>\$ 429,193</u>	<u>\$ 311,670</u>	<u>\$ 740,863</u>

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Year Ending June 30,	Note Payable - CRG 10220		
	Principal	Interest	Total
2015	\$ 1,529	\$ 536	\$ 2,064
2016	1,599	465	2,064
2017	1,673	392	2,064
2018	1,748	316	2,064
2019	1,830	235	2,064
2020-2024	4,217	214	4,431
Total	<u>\$ 12,596</u>	<u>\$ 2,157</u>	<u>\$ 14,753</u>

Year Ending June 30,	Note Payable - RD #2		
	Principal	Interest	Total
2015	\$ 20,776	\$ 36,656	\$ 57,432
2016	21,355	36,077	57,432
2017	21,950	35,482	57,432
2018	22,561	34,871	57,432
2019	23,189	34,243	57,432
2020-2024	126,001	161,159	287,160
2025-2029	144,551	142,609	287,160
2030-2034	165,832	121,328	287,160
2035-2039	190,246	96,914	287,160
2040-2044	218,254	68,906	287,160
2045-2049	250,386	36,774	287,160
2050-2052	137,306	4,886	142,191
Total	<u>\$ 1,342,407</u>	<u>\$ 809,905</u>	<u>\$ 2,152,311</u>

NOTE 9 - VOLUNTEER FIREFIGHTERS PENSION FUND

The Town volunteer firemen participate only in the Oklahoma State Firefighters Pension and Retirement System which is a defined contributions plan applying only to the Town's volunteer firefighters. Eligibility to participate includes all full-time or voluntary firefighters or a participating municipality if they are hired before age 45. The State Statute gives the authority to establish contribution obligations and benefits. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. The eligibility and benefits for distribution for volunteer firemen is 20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.

Contributions are made by the Town at the rate of \$60 per volunteer firefighter per year. The total contribution for 2013/2014 was \$660 and covered 11 volunteers.

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10 - INTERFUND TRANSACTIONS

Interfund operating transfers for the year ended June 30, 2014, were as follows:

OPERATING TRANSFERS:	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL:		
McCurtain Municipal Authority	\$ 0	\$10,066
Total General	<u>0</u>	<u>10,066</u>
ENTERPRISE FUNDS:		
McCurtain Municipal Authority:		
General Fund	10,066	0
Total Enterprise Funds	<u>10,066</u>	<u>0</u>
GRAND TOTALS	<u>\$10,066</u>	<u>\$10,066</u>

NOTE 11 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The restricted net position include amounts related to Note 4 above.

Fund Balances

Town of McCurtain
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending June 30, 2014

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:				
Restricted for:				
Police Fees	\$ -	\$ -	\$ 317	\$ 317
Unassigned	27,251	301	-	27,552
Total	<u>\$ 27,251</u>	<u>\$ 301</u>	<u>\$ 317</u>	<u>\$ 27,869</u>

NOTE 12 - COMMITMENTS AND CONTINGENCIES

GRANT PROGRAMS

The Town participates in certain federal and state grant programs as available, currently the town is not participating in any ongoing

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agency cannot be determined at this time, although it is believed by the Town that the amount, if any, would not be significant.

LITIGATION

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

Accordingly, the Town believes that such claims should be recorded in the year in which taxes are assessed for payment on the claim, only to the extent of such tax revenue that is actually provided. This method is preferable to the conflicting rule for treatment of loss contingencies as set out in Statement of Financial Accounting Standards No.5 (issued by the Financial Accounting Standards Board) wherein contingencies should be recorded in full in the year in which it is probable that a liability has been created if the amount of loss can be reasonably estimated.

COMMITMENTS

At June 30, 2014, the Town had an unrecorded commitment for earned but unused vacation and compensatory time leave benefits that would require payment upon employee termination of service. The Town's usage of the modified cash basis of accounting results in this commitment not being accrued in the financial statements.

NOTE 13 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through December 22, 2014, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2014.

EXHIBIT H

TOWN OF MCCURTAIN, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive (Negative)</u>
Beginning Budgetary Fund Balance:	\$ 2,143	\$ 2,143	\$ 2,143	\$ 0
<u>Resources (Inflows):</u>				
Taxes:				
Sales Tax	30,604	30,604	46,560	15,956
Tobacco Tax	421	421	513	91
Franchise Tax	6,001	6,001	8,698	2,697
Intergovernmental:				
Alcoholic Beverage Tax	7,420	7,420	8,576	1,156
Gasoline Excise Tax	859	859	948	89
Motor Vehicle Tax	3,294	3,294	4,015	721
Grants	-	-	-	-
Fines & Forfeitures	44,011	44,011	123,429	79,418
Royalty Income	4,740	4,740	1,796	(2,945)
Rental Income	383	383	300	(83)
Miscellaneous Income	9,147	9,147	4,827	(4,320)
Interest Income	2	2	10	8
Transfers In	4,500	4,500	-	(4,500)
Amounts available for appropriation	113,525	113,525	201,814	88,289
<u>Charges to Appropriations (Outflows):</u>				
Personal Services	62,000	62,000	78,835	(16,835)
Maintenance & Operations	46,525	46,525	85,661	(39,136)
Capital Outlay	-	-	-	-
Debt Service	-	-	-	-
Transfers	5,000	5,000	10,066	(5,066)
Total Charges to Appropriations	113,525	113,525	174,563	(61,037)
Prior Year Adjustments to Fund Balance	-	-	-	-
Ending Budgetary Fund Balance	-	-	27,251	27,251

TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2014

The Town's annual operating budget represents appropriations as authorized by the Board of Trustees and County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The Town's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board of Trustees and County Excise Board. The legal level of control of the budget is the expenditures category within a department. The expenditure categories required by the applicable State Statutes are:

1. Personal Services;
2. Maintenance and Operations; and
3. Capital Outlay

The budget is prepared on the same modified cash basis of accounting as applied to the basic financial statements. Revenues and expenses are reported when they result from cash transactions.

**TOWN OF MCCURTAIN, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Program Title	Federal CFDA No.	Award Amount	Federal Expenditures
<u>USDA Rural Development:</u>			
Loan:			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 1,391,000	\$ 495,557
Grant:			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 1,137,000	\$ 620,489
Total		<u>\$ 2,528,000</u>	<u>\$ 1,116,046</u>

**TOWN OF MCCURTAIN, OKLAHOMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014**

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the Town of McCurtain, Oklahoma (the "Town").

The Town's reporting entity is defined in Note 1 to the Town's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is present using the modified cash basis of accounting, which is described in Note 1 to the Town's basic financial statements.

NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards revenues are reported in the Town's basic financial statements as follows:

<u>Federal Sources</u>	
General	\$ 1,116,046
Total	<u>\$ 1,116,046</u>

NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with the modified cash basis of accounting.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Town Council
Town of McCurtain, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of McCurtain, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of McCurtain, Oklahoma's basic financial statements, and have issued our report thereon dated December 22, 2014, which was qualified for the improper capital asset recordkeeping.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of McCurtain's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of McCurtain's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of McCurtain's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material

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weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Items 14-01, 14-02 and 14-03.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of McCurtain's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Town of McCurtain's Response to Findings

Town of McCurtain's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of McCurtain's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

December 22, 2014

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Town Council
Town of McCurtain, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Town of McCurtain, Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of McCurtain, Oklahoma's major federal programs for the year ended June 30, 2014. The Town of McCurtain, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of McCurtain, Oklahoma's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and in accordance with Oklahoma Statutes. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of McCurtain, Oklahoma's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Town of McCurtain, Oklahoma's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Town of McCurtain, Oklahoma complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Town of McCurtain, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of McCurtain, Oklahoma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of McCurtain, Oklahoma's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over

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compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

December 22, 2014

TOWN OF MCCURTAIN, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2014

SIGNIFICANT DEFICIENCIES OF INTERNAL CONTROL

Item 13-01: Capital Asset Recordkeeping

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The Town does not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances is virtually non-existent.

Cause/Effect: Due to the weak internal control system, only minimal capital assets records are being maintained.

Recommendation: We recommend the governing body and management take appropriate action to direct the staff to initiate this project and provide funding for the continued update and maintenance of these records to meet its public accountability responsibility in managing these Town assets.

Response: The Town has expressed interest in developing and maintaining detail general fixed asset records.

Item 13-02: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

TOWN OF MCCURTAIN, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2014

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the Town.

Response: The Board continues to be actively involved in the operations of the Town.

Item 13-03: Meter Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The Town does not keep a ledger regarding the balance of customer meter deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits. The Town is aware of the problem and has already taken steps to correct the situation.

Response: The Town is aware of the problem. However, the condition still exists.

SIGNIFICANT DEFICIENCIES OF COMPLIANCE

None.

Current Status: All three findings still exist in the current year.

TOWN OF MCCURTAIN, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issue: Qualified

Internal control over financial reporting:

Material weaknesses identified? ☐ yes ☒ no

Significant deficiencies identified
that are not considered to be material
weaknesses? ☒ yes ☐ none reported

Noncompliance material to financial
statements noted? ☐ yes ☒ no

FEDERAL AWARDS

Internal control over major programs:

Material weaknesses identified? ☐ yes ☒ no

Significant deficiencies identified
that are not considered to be
material weaknesses? ☐ yes ☒ none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
section 510(a) of Circular A-133? ☐ yes ☒ no

Identification of major programs:

#10.760 Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between
type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

SECTION II - FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROL FINDINGS:

Item 14-01: Capital Asset Recordkeeping

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial

TOWN OF MCCURTAIN, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

transactions. In general terms, internal controls are simply good business practices.

Condition: The Town does not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances is virtually non-existent.

Cause/Effect: Due to the weak internal control system, only minimal capital assets records are being maintained.

Recommendation: We recommend the governing body and management take appropriate action to direct the staff to initiate this project and provide funding for the continued update and maintenance of these records to meet its public accountability responsibility in managing these Town assets.

Response: The Town has expressed interest in developing and maintaining detail general capital asset records.

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Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the Town.

Response: The Board continues to be actively involved in the operations of the Town.

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Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The Town does not keep a ledger regarding the balance of customer meter deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

TOWN OF MCCURTAIN, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits. The Town is aware of the problem and has already taken steps to correct the situation.

Response: The Town is aware of the problem. However, the condition still exists.

COMPLIANCE FINDINGS:

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

TOWN OF MCCURTAIN, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	SPECIAL REVENUE FUNDS		Total Nonmajor Governmental Funds
	CLEET Fund	OSBI Fund	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 66	\$ 251	\$ 317
Investments	-	-	-
Due from General Fund	-	-	-
Due from other governments	-	-	-
TOTAL ASSETS	\$ 66	\$ 251	\$ 317
<u>LIABILITIES & FUND EQUITY</u>			
LIABILITIES:			
Due to Other Governments	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-
TOTAL LIABILITIES	-	-	-
FUND BALANCES:			
Restricted	66	251	317
TOTAL FUND BALANCES	66	251	317
TOTAL LIABILITIES AND FUND BALANCES	\$ 66	\$ 251	\$ 317

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MCCURTAIN, OKLAHOMA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	SPECIAL REVENUE FUNDS		Total Nonmajor Governmental Funds
	CLEET Fund	OSBI Fund	
REVENUES:			
Taxes:			
Sales Tax	\$ -	\$ -	\$ -
Franchise Tax	-	-	-
Intergovernmental:			
Alcoholic Beverage Tax	-	-	-
Gasoline Excise Tax	-	-	-
Motor Vehicle Tax	-	-	-
Grants	-	-	-
Fines & Forfeitures	5,472	5,990	11,462
Miscellaneous Income	-	90	90
Interest Income	-	-	-
TOTAL REVENUES	5,472	6,080	11,552
EXPENDITURES:			
Current:			
Personal Services	-	-	-
Maintenance & Operations	5,423	5,879	11,303
Capital Outlay	-	-	-
Debt Service - Principal & Interest	-	-	-
TOTAL EXPENDITURES	5,423	5,879	11,303
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	49	201	249
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Capital Debt Proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGES IN FUND BALANCES	49	201	249
FUND BALANCE - BEGINNING OF YEAR	17	50	67
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-
FUND BALANCE - END OF YEAR	\$ 66	\$ 251	\$ 317

See Accountant's Audit Report & Notes Which Accompany These Financial Statements